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SUBJECT: VIETNAM: SFRC STAFFDEL STUDIES TRANSPARENCY IN EXTRACTIVE INDUSTRIES

REF: Hanoi 649 ("Vietnam's Oil And Mining Companies")

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¶1. (SBU) Summary: Senate Foreign Relations Committee professional staff members Jay Branegan and Marik String visited Hanoi May 25-29, 2008 to meet with GVN officials, private sector energy companies and NGOs to discuss transparency in extractive industries. The Extractive Industries Transparency Initiative aims to strengthen governance by improving transparency in revenue flows between oil, gas and mining companies and their host governments. GVN officials were generally receptive and said they could get behind the initiative. With the GVN focused on inflation and other pressing economic issues, however, it could be difficult to identify an EITI "champion" in the near future. End Summary.

¶2. (SBU) Jay Branegan and Marik String, professional staff members on the Senate Foreign Relations Committee, visited Hanoi May 24-29, 2008 to study transparency in extractive industries. Branegan and String met with officials from the Ministry of Industry and Trade (MOIT), Ministry of Public Investment (MPI), Ministry of Finance (MOF), state-run PetroVietnam, the National Assembly's Committee on Science, Technology and the Environment, and NGO and private sector energy representatives.

¶3. (SBU) Branegan and String promoted the Extractive Industries Transparency Initiative (EITI) as an entry point to increase transparency and to help Vietnam avoid the "resource curse" that often afflicts resource-rich developing countries. EITI is an international initiative that aims to strengthen governance by improving transparency and accountability in developing states where revenues from extractive industries provide a significant portion of the national budget. Twenty-two countries in Africa, Central Asia and Latin America are currently involved, including Peru, Nigeria, Azerbaijan and Kazakhstan. Membership is voluntary and can create enhanced access to capital markets, help countries improve their budget accountability, and increase a country's desirability as a location for foreign direct investment.

MINISTRY OF INDUSTRY AND TRADE

¶4. (SBU) Like many of his GVN counterparts, Dr. Nguyen Khac Tho, Deputy Director of MOIT's Department of Heavy Industry, assured the Staffdel that Vietnam was committed to transparency and anti-corruption. He said the Norwegian Embassy in Hanoi was currently helping Vietnam to revise its oil and gas law and had already provided MOIT with a copy of EITI as part of that effort (Tho was one of the few GVN officials who was actually familiar with the initiative). Minister of Industry and Trade Hoang met with Norwegian Embassy officials on May 20, he said, and President Nguyen Minh Triet, accompanied by Minister Hoang, would soon depart for Norway and would meet Norway's Energy Secretary during the trip.

Although PetroVietnam reports directly to MOIT, the company's revenues do not fall under ministry purview. MOIT Vice Minister Bui Xuan Khu is also a member of PetroVietnam's board, he added.

NATIONAL ASSEMBLY

¶5. (SBU) Nghiem Vu Khai, Vice-Chair of the National Assembly's Committee on the Environment, Science and Technology, confirmed that the National Assembly has "specific concerns" concerning loopholes in Vietnamese law related to the tendering process for oil and gas contracts. He said the GVN was currently revising its national oil and gas law and that he, Khai, was a member of the revision committee. The oil and gas law, last revised in 2000, would contain no new transparency provisions, he added. The GVN solicited foreign energy firms to provide comments on the new law (a comment period he admitted was "short"), but no companies provided comments related to transparency.

¶6. (SBU) Khai was unfamiliar with EITI and he emphasized that Vietnam strived for transparency since the country's extractive industries were under "people's ownership." Vietnam has not considered establishing an oil and gas stabilization fund to ensure long-term budget stability and to avoid "Dutch disease," he said, and PetroVietnam reinvests the majority of its after-withholding capital into production.

¶7. (SBU) Officials at two local Hanoi NGOs, Mekong Economics and CODE, noted that Prime Minister Nguyen Tan Dung has made tackling corruption a top priority. Low government salaries, the lack of an independent regulatory agency to root out corruption, and a free press to publicize it, however, will make eradicating the problem easier said than done.

COMMENT

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¶9. (SBU) Comment: GVN officials were generally forthcoming with information and receptive about EITI, and said they could get behind the initiative if mandated by the GVN's leadership. With the government focused on inflation and other pressing economic issues, however, it could be difficult to identify an EITI "champion" in the near term. End comment.

¶10. (U) Staffdel did not have a chance to clear on this cable before they departed Vietnam.

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